



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

March 1, 1999

MEMORANDUM FOR: Courtland Cox
Director
Minority Business Development Agency

FROM: Johnnie E. Frazier
Acting Inspector General

SUBJECT: *MBDA FY 1998 Financial Statements*
Audit Report No. FSC-10867-9-0001

The attached report presents an unqualified opinion on the fiscal year 1998 Financial Statements for the Minority Business Development Agency's (MBDA). The unqualified opinion is especially noteworthy considering the significant changes as mandated by OMB Bulletin No. 97-01 which required the preparation of four new financial statements. Also provided are reports on MBDA's internal controls and compliance with laws and regulations, including management's comments. The accompanying overview and financial statements were prepared by MBDA's management.

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994, an audited financial statement must be prepared covering all accounts and activities for each office, bureau, and activity of the Department. The independent certified public accounting firm of Urbach Khan & Werlin PC (UKW) was contracted to audit MBDA's Balance Sheet and related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for FY1998. The Office of Inspector General defined the audit scope, selected the contractor, and oversaw the performance and delivery of the audit.

In the opinion of UKW, the financial statements present fairly, in all material respects, the financial position of MBDA as of September 30, 1998, and the net costs of its operations; changes in net position; budgetary resources; and reconciliation of net costs to obligations of MBDA for FY 1998, in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board.

Financial statement audits are a key gauge for measuring the progress of a bureau in meeting the goals and objectives of the CFO Act. The results of the UKW audit indicate that MBDA and its provider of accounting services have been successful in establishing an internal control structure that facilitates the preparation of reliable accounting and financial information.

While UKW's Report on Internal Controls contains no material weaknesses, it identifies four reportable conditions in MBDA's internal control structure:

- Controls surrounding the MBDA's financial management systems need improvement. (Repeat Condition)
- MBDA needs to improve its presentation of performance in the Overview.
- MBDA did not timely complete its deobligation process for inactive grants and agreements.
- Annual leave discrepancies continue to exist.

As a result of a FY 1997 general controls review performed by the OIG at the Office of Computer Services (OCS), several issues were identified relating to the controls surrounding the mainframe system on which the Financial Accounting and Reporting System (FARS) application is processed. Additionally, the Economic Development Administration (EDA) performs certain accounting functions on behalf of MBDA related to MBDA's grant funds. EDA's financial management system used for grant activity accounting is not compliant with the United States Government Standard General Ledger (SGL) at the transaction level. UKW continues to consider these issues to be a reportable condition to MBDA because FARS and EDA's grant accounting system process the financial information used in preparing MBDA's financial statements. Since MBDA management is not responsible for the general controls surrounding either FARS or EDA's grant accounting system, recommendations were directed to OCS management in the OIG Audit Report No. FSD-10021-8-0001, *Information Systems General Controls Review of OCS*, and to EDA management in OIG Audit Report No. FSD-10997-9-0001, *EDA's FY 1998 Financial Statements*, respectively.

UKW identified one instance of material non-compliance in its Report on Compliance with Laws and Regulations. Under the Federal Financial Management Improvement Act (FFMIA) of 1996, the auditors are required to report on whether the bureau's financial management systems substantially comply with Federal financial management systems requirements, applicable accounting standards, and the SGL at the transaction level. FARS does not maintain sufficient commonality of data elements and transactions processing to ensure timely, accurate and effective financial reporting, as required by Federal guidance. Additionally, as noted, EDA's financial management system used for MBDA's grant accounting does not meet Federal financial management system requirements.

UKW's review of a draft version of MBDA's overview to its FY 1998 financial statements identified significant weaknesses that included performance measures which were not in accordance with the Department's Annual Performance Plan, inconsistencies between the overview and MBDA's strategic plan, no clear mission statement, and an incomplete Y2K discussion. Consequently, UKW identified the overview as a reportable condition. Our office also reviewed the draft overview and agreed with the weaknesses identified by UKW. We informally provided MBDA management with a memo containing our observations and recommendations. Management was responsive, and also indicated that they plan to make

additional revisions to strengthen the overviews for FY 1999 and beyond. The OIG realizes that improving the overview is an iterative process. We encourage MBDA to strengthen next year's discussion of actual results and to continue efforts to improve performance measurement and reporting.

As required by DAO 213-5, please provide an audit action plan addressing the recommendations in the attached report within 60 days of this memorandum. The format for the plan can be found in Exhibit 7 of the DAO. Under the DAO, the Office of Inspector General must concur with your proposal.

If you wish to discuss the contents of this report or the audit action plan, please contact George E. Ross, Assistant Inspector General for Auditing, on (202) 482-1934, or Thomas McCaughey, Director, Financial Statements Audits Division, on (703) 603-0301. We appreciate the cooperation and courtesies extended by MBDA during the audit.

Attachment

cc: Linda J. Bilmes
Acting Chief Financial Officer and
Assistant Secretary for Administration

Phillip Singerman
Assistant Secretary for
Economic Development Administration

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